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ABSTRACT

This report summarizes provisions of the budget reconciliation bills moving through Congress relating to postsecondary education including student loans and tax proposals. The House and Senate postsecondary education and tax authorizing committees reported reconciliation bills in June, 1997. These bills carried out the terms of the 5-year balanced budget plan agreement by cutting the federal student loan programs by over $1.8 billion over 5 years and by providing new financial aid tax incentives. These changes are described in Part 1 of this document. Part 2 analyses the main tax proposals: the House Republican bill, the Senate Republican bill, and versions from House Democrats, Senate Democrats, and President Clinton. A chart highlights the main legislative provisions in each of the main tax alternatives. Specific descriptions are provided of proposed student loan cuts, the Hope Tax Credit (including student and institutional eligibility and definitions), the tax deduction/exclusion for postsecondary expenses provision, Section 127, the student loan interest deduction, use of Individual Retirement Accounts for educational purposes, cancellation of student loans, and miscellaneous provisions. (JLS)

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ED 410 793

Fiscal Year-1998 Budget Reconciliation

A Report on Student Loan Cuts and Tax Proposals

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June 1997

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June 26, 1997

Dear NASFAA Member:

This publication describes provisions of the reconciliation bills moving through the Congress. We have tried to provide the most comprehensive information possible, however, given publication deadlines and the legislation's complexity, especially in the tax benefits area, we may need to clarify our current understandings as further information becomes available.

In June, House and Senate postsecondary education and tax authorizing committees reported their reconciliation bills. These reconciliation bills carry out the terms of the five-year balanced budget plan agreement by cutting the federal student loan programs and by providing new financial aid tax incentives. Controversy surrounds whether or not the Congress meets the agreement's terms in the tax area. Congressional floor debate will be completed prior to its July 4th recess and the bills will go to a House/Senate Conference Committee shortly after the recess concludes.

The balanced budget agreement cuts $1.8 billion from the federal student loan programs over five years--those changes are described in Part One of this document. The agreement also provides for $35 billion in tax relief over five years targeted on postsecondary education through the use of a various tax benefits. Part Two analyzes the main tax alternatives, e.g. the House Republican bill, the Senate Republican bill, and versions from House Democrats, Senate Democrats, and President Clinton. We have provided a chart highlighting the main legislative provisions in each of the main tax alternatives, with the exception of the Senate Democratic plan since details arrived too late to incorporate.

If these tax benefits become law that they will substantially change the way Americans finance and plan for financing their postsecondary education and will challenge us to reexamine long-held student financial assistance assumptions. They will affect our offices' procedures and relationship with the federal government. If we are to continue the high levels of service to students and parents that we currently provide, then, as a profession, we need to be cognizant of these changes. We hope this document is useful in this process.

Sincerely,

Dallas Martin
President

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Fiscal Year 1998 Budget Reconciliation
Part One
Student Loan Cuts

The House and Senate approved reconciliation legislation cutting approximately $1.8 billion from the federal student loan programs in late June. The cuts fulfill the agreement to balance the federal budget by 2002. The student loan portion of the agreement has three major components. First, it requires guaranty agencies to return $1 billion of their reserve funds in the next five years. Second, it cuts Section 458 of the Higher Education Act (HEA) which authorizes funding for administrative expenses for both the Federal Direct Loan Program and the Federal Family Education Loan Program by $600 million over the five-year period. Third, it eliminates the $10 origination fee per loan paid to Direct Loan Schools with savings of $160 million over the five years covered by the balanced budget agreement. House and Senate bills contain several differences.

While both House and Senate bills require the return by 2002 of $1 billion in guaranty agency reserves, each has a different formula guiding the return of those funds and the Senate bill requires the return of $28 million more than does the House bill since the Senate authorizing committee did not approve the elimination of a small education program. The bills differences in the reserve return formulas is a result of a dispute over the amount of proportionality in the return of the reserves by each guaranty agency.

Each bill also reinstates an administrative entitlement to guaranty agencies. Prior to 1993, guaranty agencies received as an entitlement payment an amount equal to 1 percent of their loan volume in order to pay administrative expenses. The Administrative Cost Allowance (ACA) entitlement was removed in 1993 by the legislation that set up the Direct Loan Program and the Secretary was given discretionary authority to make the ACA payments at whatever level was deemed appropriate from funds authorized under HEA Section 458. House and Senate reconciliation bills reinstate the ACA entitlement, but instead of setting it at 1 percent as it was in the past, the committees set the ACA at 0.85 percent which is the current rate.

Part Two
Tax Proposals

Hope Tax Credit

House Republican Bill

General Information: Individual taxpayers would be allowed to claim up to a $1,500 tax credit per year for 50 percent of tuition and related expenses paid for the first two years of the student's degree or certificate program provided the individual has not completed such first two years. This effectively means any qualified educational expenses above $3,000 would be ineligible for

the credit. The Hope tax credit would be non-refundable, therefore, if one has no tax liability, then the tax credit would not be available for this class of citizens who usually have lower incomes. Expenses eligible for the credit must be made, but may be claimed by the taxpayer, the taxpayer's spouse, or a dependent. Tuition and other related expenses, but not room and board charges, would qualify for the credit. Individuals may claim either the Hope tax credit or the House Republican bill's deduction, but not both for one individual.

The credit would be ratably phased-out for taxpayers with modified Adjusted Gross Incomes (AGI) between $40,000 and $50,000 ($80,000 and $100,000 for joint returns). To account for inflation, income phase-out ranges would increase by a cost of living adjustment rounded down to the closest multiple of $5,000 beginning in 2001. The credit would be available in the taxable year that expenses are paid as long as the postsecondary education begins or continues during that year or during the first three months of the next year. The credit beginning in 1998 would be indexed for inflation rounded down to the nearest multiple of $50. The Hope tax credit would become effective for educational expenses paid after December 31, 1997 for education services provided after than date.

Student Eligibility: To qualify as an eligible student, the individual must not have a federal or state felony conviction for drug possession or distribution. An individual qualifies for the credit if enrolled in a degree, certificate, or other program (including study abroad if approved for credit by the student's enrolled school) that leads to a recognized educational credential. The individual must be enrolled at least half-time which means during the taxable year the student must have at least one-half the normal academic work load for an academic period that begins during the taxable year. The student must have a high school diploma or its equivalent. The student need not maintain any specific grade point average (GPA) in order to qualify for the credit.

Dependent Students: The credit is allowed only if the student is claimed by a taxpayer as a dependent for the taxable year for which the credit is claimed unless it is claimed for the taxpayer or the taxpayer's spouse. An individual that is claimed as a dependent is ineligible for a Hope credit for that tax year on the student's own tax return. However, any qualified tuition and related expenses paid by the dependent student would be treated as paid by the parent (or other taxpayer) for purposes of the credit.

Qualified Tuition, Related, and Out-of-Pocket Expenses: Tuition, fees and books required for enrollment or attendance at an eligible institution would be deemed to be "qualified tuition and related expenses." Neither meals, lodging, student activities, athletics, insurance, transportation, or similar personal, living, or family expenses would qualify for the credit nor would education expenses involving sports, hobbies, or games unless these later expenses are part of the student's degree program. Furthermore, only an individual's out-of-pocket expenses would qualify for the credit. The amount of total tuition and related expenses would be reduced by specified scholarship or fellowship grants or any other tax-free educational benefits used to pay such costs. However, any currently taxable educational assistance funds that under current law must be

included as part of the gross income of either the student or the taxpayer claiming the credit would not be treated in such a fashion. Qualified tuition expenses paid with the proceeds of a loan would be eligible for the credit.

Eligible Postsecondary Institution: For taxpayers to receive the credit, the school must be eligible to participate in the federal Title IV student aid programs and meet the definition in Section 481 of the Higher Education Act. Schools must be accredited and offer credit toward bachelor's and associate's degrees or another recognized postsecondary credential.

Regulations and Reporting Requirements: In consultation with the Secretary of Education, the Secretary of the Treasury would issue implementing regulations and issue rules for recordkeeping and information reporting that schools would be required to file to assist students and the IRS in calculating the amount of the credit potentially available.

Schools would have to report several items to the Treasury Department including the following annual tax year information: the name, address, and Tax Identification Number of the individual from whom the school received payments for qualified higher education expenses; the name, address and Tax Identification Number of the taxpayer who will claim the dependent; the aggregate amount of payments from the individual for qualified higher education expenses; the amount of reimbursements or refunds paid to the student; and, other such information prescribed by the Secretary. Finally, by January 31st of each year schools would be required to furnish each student a statement containing the name, address, and phone number of the campus official who prepared the statement which contains the aggregate amount of payments from the individual for qualified higher education expenses and the amount of reimbursements or refunds paid to the student.

Senate Republican Bill

General Information: Like the House Republican Hope tax credit, the Senate bill provides that individual taxpayers would be allowed to claim up to a $1,500 tax credit per year for 50 percent of qualified tuition and related expenses paid for the first two years of the student's degree or certificate program provided the individual has not completed such first two years. Unlike the House version, the Senate bill allows students attending a two-year community college or vocational/technical school, a 75 percent credit (rather than 50 percent credit) of qualified tuition and related expenses subject to the maximum credit of $1,500. This effectively means any qualified educational expenses above $3,000 would be ineligible for the credit in the case of all but community colleges and, for community college/vocational education any expenses above $2,000 would be ineligible for the credit. The Senate version, like the House version, provides that the Hope tax credit would be non-refundable. Expenses eligible for the credit must be made, but may be claimed by the taxpayer, the taxpayer's spouse, or a dependent. Tuition and other related expenses, but not room and board charges, would qualify for the credit.

The credit would be ratably phased-out for taxpayers with modified AGIs between $40,000 and $50,000 ($80,000 and $100,000 for joint returns). Income phase-out ranges would be indexed for inflation rounded down to the closest multiple of $5,000 beginning in 2001. The credit beginning in 1998 would be indexed for inflation rounded down to the nearest multiple of $50. The credit would be available in the taxable year that expenses are paid as long as the postsecondary education begins or continues during that year or during the first three months of the next year. The Hope tax credit would become effective for educational expenses paid after December 31, 1997 for education services provided after than date.

Student Eligibility: Same requirements as described in House Republican bill version.

Dependent Students: Same requirements as described in House Republican bill version.

Qualified Tuition, Related, and Out-of-Pocket Expenses: Same requirements as described in House Republican bill version.

Eligible Postsecondary Institution: Same requirements as described in House Republican bill version.

Regulations and Reporting Requirements: Same requirements as described in House Republican bill version.

President Clinton Version

General Information: Individual taxpayers would be allowed to claim, when fully implemented, up to a $1,500 tax credit of tuition and related expenses paid for the first two years of the student's degree or certificate program provided the individual has not completed such first two years. The Hope tax credit would be non-refundable. Expenses eligible for the credit must be made, but may be claimed by the taxpayer, the taxpayer's spouse, or a dependent. Tuition and other related expenses, but not room and board charges, would qualify for the credit.

The credit would be ratably phased-out for taxpayers with modified AGIs between $50,000 and $70,000 ($80,000 and $100,000 for joint returns). Income phase-out ranges would be indexed for inflation rounded down to the closest multiple of $5,000 beginning in 2001. Under the president's plan both the Hope tax credit and tax deduction maximum amounts of $1,500 and $10,000 respectively would be phased-in, although information about the phase-in for both are not available at this time. The credit would be available in the taxable year that expenses are paid as long as the postsecondary education begins or continues during that year or during the first three months of the next year. The credit beginning in 1998 would be indexed for inflation rounded down to the nearest multiple of $50. The Hope tax credit would become effective for educational expenses paid after January 1, 1997 for education services commencing on or after July 1, 1997.

Student Eligibility: Same general requirements as House Republican bill version. The Administration did away with its requirement that second-year students must have a B- grade point average in order to qualify for the credit changing that provision to require a student make satisfactory progress as defined in the Higher Education Act.

Dependent Students: Same requirements as described in House Republican bill version.

Qualified Tuition, Related, and Out-of-Pocket Expenses: Generally the same requirements as described in the House Republican bill version. The Clinton Administration dropped its earlier provision that Federal Pell Grants be subtracted directly from the tax credit.

Eligible Postsecondary Institution: Same requirements as described in House Republican bill version.

Regulations and Reporting Requirements: Same requirements as described in House Republican bill version.

House Democratic Version

General Information: Individual taxpayers would be allowed to claim up to a $1,500 tax credit of tuition and related expenses paid for the first two years of the student's degree or certificate program provided the individual has not completed such first two years. The credit would be phased-in as follows: $1,100 for taxable years beginning in 1997 through 1999; $1,200 in 2000; and, $1,500 in 2001.

Eschewing a tax deduction, the House Democratic would provide for a 20 percent tax credit for all years after the first two of a student's educational career and includes a dollar limitation on qualified educational expenses. The 20 percent credit would be phased-in by the aforesaid dollar limitation as follows: $4,000 for taxable years beginning in 1997 through 1999; $5,000 in 2000; $7,500 in 2001; and, $10,000 in 2002. Both the 100 percent and 20 percent Hope tax credits would be non-refundable. Expenses eligible for the credit must be made, but may be claimed by the taxpayer, the taxpayer's spouse, or a dependent. Tuition and other related expenses, but not room and board charges, would qualify for the credit.

The credit would be ratably phased-out for taxpayers with modified AGIs between $50,000 and $70,000 ($80,000 and $100,000 for joint returns). Income phase-out ranges would be indexed for inflation rounded down to the closest multiple of $5,000 beginning in 2001. The credit would be available in the taxable year that expenses are paid as long as the postsecondary education begins or continues during that year or during the first three months of the next year. Both the 100 percent and 20 percent credits beginning in 2001 would be indexed for inflation rounded down to the nearest multiple of $50. The Hope tax credits would become effective for payments made for education commencing on or after July 1, 1997.

Student Eligibility: Similar requirements as described in House Republican bill version. The House Democratic version would require students make satisfactory progress according to provisions of the Higher Education Act rather than require a minimum grade point average.

Dependent Students: Same requirements as described in House Republican bill version.

Qualified Tuition, Related, and Out-of-Pocket Expenses: Generally, requirements are similar to those described in House Republican bill version, but the treatment of Federal Pell Grant is the same as President Clinton's bill.

Eligible Postsecondary Institution: Same requirements as described in House Republican bill version.

Regulations and Reporting Requirements: Treasury Secretary given authority to issue regulations to implement the credit. Same reporting requirements as described in House Republican bill version.

Senate Democrats Version (Note: As this document went to press detailed information on this plan was unavailable)

In General: The Senate Democratic version provides a Hope tax credit available in full for the first $1,000 of qualified tuition and related expenses. After that point, the credit would be worth 50 percent of additional expenses up to the maximum authorized level. The maximum authorized level would be $1,100 from 1997-99, $1,200 in 2000, and $1,500 in 2001 and thereafter.

The Senate Democratic plan would neither place a limitation on the credit by the amount of Federal Pell Grants nor by the amount of other nontaxable Federal grants. It would not require students maintain a B- in order to be eligible for the tax credit.

Additional details are unavailable.

Tax Deduction/Exclusion for Postsecondary Expenses

House Republican Bill

A tax deduction would be implemented to pay college costs (e.g. tuition, fees, book, supplies, and room and board) for withdrawals from a prepaid tuition fund operated by a state, operated by one or more colleges, or operated by a private entity of up to $10,000 per student during the taxable year to the taxpayer, the taxpayer's spouse, or a dependent. The deduction would be "above the line" therefore it would make no difference whether the taxpayer itemizes deductions or claims the standard deduction. Aggregate deductions for one student could not exceed

$40,000 for all taxable years. Individuals claiming the Hope tax credit would not be eligible for the deduction. The deduction would be allowed only for the first four years of a postsecondary education.

Conditions placed on the deduction are similar to those found in the "Hope Tax Credit House Republican Bill" description regarding "student eligibility", "dependent students", "qualified tuition, related, and out-of-pocket expenses", "eligible postsecondary institution", and "regulations and reporting requirements."

Senate Republican Bill

Instead of a tax deduction of the type in the House Republican bill or the deduction recommended by the president, the Senate Republican bill proposes an exclusion from income for the amounts distributed from a "qualified tuition program" or "education IRA" used for qualified educational expenses. Qualified tuition programs could be operated by a state, colleges, or private business. The exclusion would not be allowed if a Hope tax credit is claimed in the same taxable year distribution is made from a tuition program or IRA. Qualified higher education expenses would include tuition, fees, books, and supplies, as well as, room and board expenses.

The Senate Republican bill includes a $500 per child annual tax credit for children up to the age of 17 or age 18 after 2002. This tax credit, however, for children ages 13 and above must be invested in an education savings account and such funds could be withdrawn tax-free only for postsecondary expenses or for retirement. Parents with children under the age of 13 could use the credit for an education savings account at their option. The child tax credit is phased-out above certain income levels.

Conditions placed on the exclusion are similar to those regarding "student eligibility", "dependent students", "qualified tuition, related, and out-of-pocket expenses", "eligible postsecondary institution", and "regulations and reporting requirements" for the Senate Republican Hope tax credit.

President Clinton Version

President Clinton has proposed an "above the line" tax deduction up to $10,000 when fully implemented. Qualified educational expenses would be deductible in the taxable year the expenses are paid. If eligible for both, a taxpayer may not claim both the $1,500 Hope tax credit and the $10,000 tax deduction for the same student. However, a taxpayer may claim the credit for some students and the deduction for others. There is no limit on the number of years for which a deduction may be taken. The deduction would be phased-out for incomes between $50,000 and $70,000 ($80,000 and $100,000 for joint returns).

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Conditions placed on the deduction are similar to those found in the "Hope Tax Credit House Republican Bill" description regarding "student eligibility", "dependent students", "qualified tuition, related, and out-of-pocket expenses", "eligible postsecondary institution", and "regulations and reporting requirements."

House Democratic Version

The House Democratic version does not propose a tax deduction for educational expenses along the lines that the president has proposed. Instead, they have proposed a 20 percent credit which is described earlier in this analysis.

Senate Democratic Version

As is the case with House Democrats, Senate Democrats do not propose a tax deduction for educational expenses along the lines that the president has proposed. Instead, they have proposed a second tax credit against qualified tuition expenses available after the student is ineligible for the Hope credit. The second credit would amount to 20 percent of expenses not to exceed $4,000 from 1997-99, $7,500, in 2000, and $10,000 in 2001 and thereafter.

Senate Democrats apparently also take a page from the Senate Republican bill by allowing amounts distributed from qualified State tuition programs to be excludable from gross income. At publication time it is unknown whether or not Senate Democrats would allow colleges or private entities to set up such tuition programs. Like other versions, electing to use the Hope tax credit would prohibit use of an exclusion from income of a distribution from such a tuition program.

The Senate Democratic plan modifies the Senate Republican child tax credit. Senate Democrats would provide a $500 per child credit to a family if the proceeds were invested in an IRA for the child and allows a $350 credit otherwise. These credits would be phased-in and indexed for inflation.

Section 127

Currently, an employee's income excludes amounts of educational assistance furnished by their employer. This exclusion of education assistance is limited to $5,250 a calendar year. The exclusion for undergraduate education expires on June 30, 1997 and has been unavailable for graduate students since June 30, 1996.

This exclusion, known as Section 127, would be made permanent for undergraduates and graduate students according to the proposals put forward in the Senate Republican bill, House Democratic bill, and Senate Democratic bill. The president would extend Section 127 through, at least, 2002 for both undergraduate and graduate study. The House Republican bill would extend the current law unchanged until January 1, 1998.

Student Loan Interest Deduction

The Senate Republican bill, Senate Democratic bill, and President Clinton's bill all would allow borrowers an above the line deduction for the interest on student loans used to finance a postsecondary education. Details on the president's plan are unavailable, at this time, but it is reported that the deduction would amount to $2,500. The Senate Republican bill would allow a maximum deduction of up to $2,500 per year for interest paid on a qualified education loan during the first five years of repayment. The deduction would not be available if an individual is claimed as a dependent. In 1998, it would be indexed for inflation rounded down to the closest multiple of $50. This benefit would be phased-out for taxpayers with modified AGIs between $40,000 and $50,000 ($80,000 and $100,000 for joint filers) and these income levels in 2001 would be indexed for inflation rounding down to the closest multiple of $5,000. The provision's effective date would be for payments of interest due after December 31, 1996. For existing loans, they would qualify as of that effective date only to the extent that the 60-month limit has not yet been consumed.

Individual Retirement Accounts (IRA)

The House Republican's, the Senate Republican's and Senate Democratic versions would allow for penalty-free withdrawals from IRAs for undergraduate and graduate education and expand the number of qualified beneficiaries.

Cancellation Of Student Loans

The House Republican bill expands the current law so that a taxpayer's gross income excludes loans that are forgiven that are made by tax-exempt charitable organizations as long as the recipient's work meets a community benefit requirement. This treatment would also apply to certain Federal Direct Student Loans for which the borrower has selected income-contingent repayment at the end of the maximum repayment period. President Clinton's version of loan cancellation basically parallels the House Republican bill. The House Democratic and Senate Republican bill versions do not contain any student loan cancellation modification. Information is unavailable whether or not the Senate Democrats plan contains this cancellation provision.

Miscellaneous Provisions

The House Republican bill has three additional tax provisions affecting postsecondary education. First, the tuition waiver exemption would be ended for graduate teaching and research assistants. Many graduate students typically receive a stipend, but since the income from that stipend is usually below the lowest income tax bracket they pay no tax. If, however, the tuition waiver exemption is ended and since many tuition waivers are sizeable, then the combination of a stipend and tuition waiver would result in a tax payment. According to opponents of this House

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Republican provision, this tax payment could be so large that many could not afford to pay or would have to find other means to finance their education and pay the taxes they owe the government. Second, the House Republican bill would phase-out a benefit enjoyed by campus administrators and faculty--the tuition remission exemption. Many campus employees current enjoy this benefit where they or their children receive full or partial tuition waivers at the employee's home campus or at another postsecondary institution. Such waivers are tax-free. The House Republican bill would require that income and Social Security taxes would have to be paid on a portion of tuition remission received rising from 20 percent in 1998 to 100 percent in 2002. Third, the House Republican bill would repeal the tax-exempt status of TIAA-CREF which is the main retirement fund for many employed at postsecondary institutions. Taxes paid by TIAA-CREF would reduce the amount investment income participants receive by 2 to 3 percent every year.

Examples of Hope Tax Credit

Fully implemented versions of President Clinton's Hope tax credit and House Democratic proposals provide that if an individual has $1,500 in qualified tuition and related out-of-pocket expenses, then the individual would receive a $1,500 tax credit (100 percent credit). Under the House Republican bill, if an individual has $1,500 in qualified tuition and related out of pocket expenses, then the individual would receive a $750 tax credit (50 percent credit). Under the Senate Republican version, the 50 percent House Republican bill's tax credit would apply, except for individuals attending community colleges and vocational schools. For students attending community colleges and vocational schools with $1,500 in qualified tuition and related out-of-pocket expenses, then the individual would receive a $1,125 tax credit (75 percent credit). Under the Senate Democratic plan, if an individual has $1,500 in qualified tuition and related out-of-pocket expenses, then the individual would receive a $1,250 tax credit consisting of a 100 percent credit for the first $1,000 of expenses and 50 percent of expenses above that amount not to exceed the maximum credit of $1,500.

Examples of Tax Deductions

For the plan put forward by the House Republicans assume an educational investment account or qualified tuition program account has a balance of $20,000, consisting of $12,000 in contributions of principal and $8,000 in investment earnings. Under one scenario, perhaps the most common one, if the student has $7,000 in tuition and related expenses and $3,000 in room and board totaling $10,000 and the taxpayer wishes to use the deduction it would work in the following fashion. The individual withdraws $10,000 from the fund and pays the postsecondary institution. For purposes of the deduction, current law requires a pro-rata division between principal and investment income. In this instance, $6,000 in principal and $4,000 in earnings. The parent of the dependent student electing the deduction for qualified education expenses would include the $4,000 of investment earnings in the parent's gross income and, then, claim an offsetting deduction for the same $4,000 of earnings resulting in no tax liability for the $4,000 in

earnings. The principal distribution ($6,000) would neither be included in the parent's gross income nor would a deduction be allowed for education expenses paid with a fund's principal.

Assuming the educational expenses and distribution cost factors remain the same as in the previous example, under another scenario, if the parent claims the Hope tax credit (up to $1,500), and uses the $4,000 in investment earnings to pay for qualified tuition and related expenses, that amount would be included in the student's (distributee's) gross income and the offsetting deduction would not be available. Also, since the qualified expenses for the Hope tax credit do not include room and board expenses, as the tax deduction does, only $7,000 in expenses qualify for the Hope credit. However, while the 50 percent credit would seem to indicate a credit of $3,500 that could be claimed, since the maximum available credit is $1,500 only $1,500 could be claimed per student.

Finally, if the parent does not claim the student as a dependent, then the student could elect to claim either the Hope tax credit or the proposed deduction as outlined above.

Under President Clinton's version, if an individual had $10,000 in qualified education expenses, the individual could claim the full $10,000 tax deduction.

Higher Education Tax Proposal Comparison Chart

	Clinton Proposal	House Republican Bill (Rep. Archer's Proposal)	House Democratic Bill (Rep. Rangel's Proposal)	Senate Republican Bill (Sen. Roth's Proposal)
Hope Tax Credit Common to all proposals: *For first 2 yrs. of student's degree/cert. program. *Non-refundable. *No specific GPA required. *Only out-of-pocket expenses qualify for credit--total tuition and related expenses are reduced by any scholarship or fellowship grants or any other tax-free educational benefits used to pay such costs. *Credit may be claimed by the taxpayer, the taxpayer's spouse, or a dependent.	*Maximum of $1,500 tax credit per year. *Requires student to maintain satisfactory academic progress.	*Maximum of $1,500 non-refundable tax credit per year for 50 percent of qualified tuition and related expenses.	*Maximum of $1,500 tax credit per year. *Requires student to maintain satisfactory academic progress.	*Maximum of $1,500 tax credit per year for up to 50 percent of $3,000 of tuition and related expenses. *Maximum of 75% of up to $2,000 of tuition expenses for students attending a two-year community college or vocational/technical school
Tax deduction for higher education expenses	*$10,000, "above-the-line" tax deduction for qualified higher education expenses paid. *Taxpayer may claim Hope tax credit (if eligible) or tax deduction, not both. *No limit on the number of years deduction may be taken.	No comparable provision.	No comparable provision.	No comparable provision.
Treatment of education savings accounts, prepaid tuition plans.	No comparable provision.	*Up to $10,000/student per year ($40,000 aggregate maximum), "above-the-line" tax deduction for *withdrawals from a prepaid tuition fund to pay for college.* *Allows penalty-free IRA withdrawals for undergrad. and graduate education.	No comparable provision.	*Excludes from income amounts distributed from a "qualified tuition program" or "education IRA" used for qualified educational expenses. *Exclusion not allowed if a Hope tax credit claimed in same taxable year. *Allows penalty-free IRA withdrawals for undergrad. and graduate education.

Student loan interest deduction.	*Supports restoration of student loan interest deduction, but no details of proposal provided to date.	No comparable provision.	No comparable provision.	*Allows maximum, "above-the-line" deduction to $2,500/year for interest paid on a qualified education loan during the first 5 years of repayment. *Deduction not available if an individual is claimed as a dependent.
Education savings account requirements (contained in tax credit for children component).	No comparable provision.	No comparable provision.	No comparable provision.	*$500 per child annual tax credit for children up to the age of 17. *For children ages 13 -16, investment in education saving account required.
Section 127 - Employer Provided Tuition Assistance Benefits (Current undergraduate exclusion expires June 30, 1997; graduate exclusion expired June 30, 1996).	*Extends Section 127 through at least 2002 for both undergraduate and graduate study.	*Extends the current law unchanged until January 1, 1998.	*Extends benefits permanently for undergraduates and graduate students.	*Extends benefits permanently for undergraduates and graduate students.
Cancellation of student loans	*Excludes from gross income loans forgiven that are made by tax-exempt charitable organizations as long as the recipient's work meets a community benefit requirement. *Applies to certain Direct Loans if borrower selected income-contingent repayment at end of maximum repayment period.	*Excludes from gross income loans forgiven that are made by tax-exempt charitable organizations as long as the recipient's work meets a community benefit requirement. *Applies to certain Direct Loans if borrower selected income-contingent repayment at end of maximum repayment period.	No comparable provision.	No comparable provision.

Prepared by the National Association of Student Financial Aid Administrators
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